

## **1.00 AUTHORITY AND PURPOSE**

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### **MISSION STATEMENT**

The mission of the State Investment Board is to invest and manage the entrusted funds in a manner consistent with statutes, regulations, Board policies and the highest standards of professional conduct for the exclusive benefit of the fund beneficiaries.

### **CREATION OF THE WASHINGTON STATE INVESTMENT BOARD**

In 1981, the Washington State Legislature created a fourteen-member Board to "... exercise all powers and perform all duties prescribed by law with respect to public trust and retirement funds." (RCW 43.33A.010).

The Legislature gave the State Investment Board (Board) the responsibility to invest and manage retirement funds contributed by public employers and employees. This responsibility is further defined in RCW 43.84.150: "... the State Investment Board shall have full power to invest, reinvest, manage, contract, or sell or exchange investments acquired."

The State Investment Board is a public organization operating as part of the Executive Branch of state government. As a state agency, Board members and staff are required to comply with all statutory requirements and rules followed by other agencies, officials, and employees in the performance of their public duties. These responsibilities and requirements include, but are not limited to, budgeting and expenditures, contracting, procurement, personnel, accounting and financial reporting, public disclosure, public notice and open meeting laws.

The Board fulfills its role and carries out its responsibility in part by its own specific actions. However, a large portion of the Board's responsibilities is carried out through its staff. The Board adopts the policies and procedures which the staff follow to carry out their duties to the Board and to the beneficiaries of each trust.

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### **INVESTMENT PRINCIPLES OF THE BOARD**

The two general investment principles which guide the Board are briefly described below:

#### **Prudent Person**

The law gives the Board very broad authority to invest retirement and other funds with very few limitations except to act as a "prudent person" would act.

The term "prudent person" is well-defined in common and case law. It simply means that if the courts are asked to judge the actions of the Board, they can rely on simple common sense. Did the Board act intelligently and responsibly? When they decided on investments did they try to understand the risks? The probable outcome? Or were they careless and did they speculate with the trust funds? These are simple non-scientific questions that would help the courts decide whether Board members were acting as "prudent persons" or not.

Another test a court may use is to decide whether other persons of intelligence would have acted in a similar manner under similar circumstances. Again, the test of common sense must be brought to bear on the actions of fiduciaries.

If the Board members do not act as "prudent persons" they may be held personally liable for damages by the courts.

#### **Exclusive Benefit**

Another principle often cited is the "exclusive benefit" rule. This means that the Board members are legally obligated to act for the exclusive benefit of the fund beneficiaries. No other objective is acceptable or legally defensible.

#### **REFERENCES:**

RCW 43.33A, State Investment Board

Appendix A

RCW 43.84, Investment and Interfund Loans

Appendix A